

CONFORMED COPY

LOAN NUMBER 4183 RU

Loan Agreement

(Education Innovation Project)

between

RUSSIAN FEDERATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated October 9, 1997

LOAN NUMBER 4183 RU

LOAN AGREEMENT

AGREEMENT, dated October 9, 1997, between RUSSIAN FEDERATION (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project, and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification of Section 6.03 set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower,

that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Grant" means a grant made or proposed to be made by the Borrower out of the proceeds of the Loan to a Higher Education Institution for a Sub-Project under Part A of the Project;

(b) "Higher Education Institution" means any institution of higher education of the Borrower selected under Part A of the Project in accordance with procedures set forth in the Operational Manual;

(c) "MGPE" means the Ministry of General and Professional Education of the Borrower;

(d) "NTF" means the National Training Foundation, established pursuant to the Decree of the Government of the Russian Federation of August 12, 1994, N 1273-P and registered with the Borrower's Ministry of Justice on September 29, 1994, Certificate No. UP 8;

(e) "NTF Project Coordination Agreement" means the agreement to be entered between the Borrower and NTF in accordance with the provisions of Section 3.01 (b) of this Agreement;

(f) "Operational Manual" means the manual, satisfactory to the Bank, containing, inter alia, eligibility criteria and appraisal, approval and supervision rules and procedures for Sub-Loans and gGrants to Higher Education Institutions selected under Part A of the Project, grants to authors and publishers under Part B (2) (b) of the Project and Sub-Loan to the Region under Part C of the Project, as well as other administrative rules to be followed by NTF, as the same may be amended from time to time by agreement between the Bank and the Borrower;

(g) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated March 26, 1997 and April 26, 1997 between the Borrower and the Bank;

(h) "Project Account" means the account referred to in Section 6.01 (c) of this Agreement;

(i) "Region" means any of the Regions constituted underof the Russian Federation to whom the Borrower has made or proposes to make a Sub-Loan under Part C of the Project;

(j) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(k) "Sub-Loan" means a loan made or proposed to be made by the Borrower out

of the proceeds of the Loan to a Region under Part C of the Project, or to a Higher Education Institution for a Sub-Project under Part A of the Project;

(l) "Sub-Loan Agreement" means the agreement to be entered into between the Borrower and a Region or a Higher Education Institution referred to in Section 3.01 (e) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Sub-Loan Agreement; and

(m) "Sub-Project" means a project to be carried out by a Higher Education Institution under Part A of the Project, utilizing the proceeds of a Sub-Loan or a Grant.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to seventy-one million Dollars (\$71,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for:

(i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services; and (ii) amounts paid (or if the Bank shall so agree, to be paid) by the serviceBorrower for grants to authors and publishers under Part B.2 (b) of the Project to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London Interbank offered rate for six-month deposits in single currency for value the first day of such Interest Period (or, in the

case of the initial Interest Period, for _____ value the Interest Payment Date occurring on or next _____ preceding the first day of such Interest Period), as _____ reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) _____ one half of one percent (1/2 of 1%); (B) minus (or plus) _____ the weighted average margin, for such Interest Period, _____ below (or above) the London interbank offered rates, or _____ other reference rates, for six-month deposits, in respect _____ of the Bank's outstanding borrowings or portions thereof _____ allocated by the Bank to fund single currency loans or _____ portions thereof made by it that include the Loan; as _____ reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of overall Project coordination, the Borrower shall enter into an agreement with NTF on such terms as shall be acceptable to the Bank which shall include terms specifying the responsibilities of NTF in respect of coordination of Project activities, accounting, preparation of requests for withdrawals from the Loan Account, procurement and administrative support.

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(d) The Borrower: (i) shall relend out of the proceeds of the Loan amounts allocated from time to time under Category (56) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to Regions under Sub-Loan Agreements to be entered into between the Borrower and each of the Regions under terms and conditions satisfactory to the Bank, including, without limitations, the terms and conditions specified in Schedule 7 to this Agreement; (ii) make available the proceeds of the Loan amounts allocated from time to time under Categories (1) and (2), (2) and (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to the Higher Education Institutions under financial arrangements which shall include Sub-Loans and grants in accordance with paragraph 43 of Schedule 5 to this Agreement; and (iii) make available the proceeds of the Loan amounts allocated from time to time under Category (45) (c) of the table set forth in paragraph 1 of Schedule 1 to this Agreement as grants to authors and publishers in accordance with the procedures set

forth in the Operational Manual.

(e) The Borrower shall exercise its rights under the Sub-Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, or waive the Sub-Loan Agreements or any provision thereof. Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause NTF to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project.

(b) The Borrower shall cause NTF to:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures in respect of the Project with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said

auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Condition, the following additional events are specified:

(a) the Operational Manual, or any provision thereof, shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of the Borrower to carry out the Project;

(b) NTF shall have failed to perform any of its obligations under the NTF Project Coordination Agreement;

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of NTF or for the suspension of its operation.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraphs (a) and the event specified in Section 5.01 (b) of this Agreement shall occur and shall continue for a period of sixty-days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph any of the events specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Operational Manual has been adopted by NTF; and

(b) the NTF Project Coordination Agreement has been duly executed by the Borrower and NTF;

(c) the Borrower shall have opened the Project Account in a commercial bank on terms and conditions acceptable to the Bank with an initial deposit in local currency equivalent to [\$10,000].

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the NTF Project Coordination Agreement has been duly authorized or ratified by the Borrower and NTF and is legally binding upon the Borrower and NTF in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower or the Deputy Minister of Finance responsible for international economic affairs is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Ylyinka Street 9
103097 Moscow
Russian Federation

Telex:

112008

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI)
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

RUSSIAN FEDERATION

By /s/ Yuli Vorontsov

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes Linn

Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods for Part A of the	411,000,000	100% of foreign expenditures, 100%

	Project		of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(2)	Works for Part A of the Project	1,600,000	70%
(3)	Services for Part A of the Project		
	(a) Consultants	53,000,000	100%
	(b) Seminars, study tours and fellowships	900,000	100% of foreign expenditures and 35% of local expenditures
(4)	Goods for Part B of the Project	5,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(5)	Services for Part B of the Project		
	(a) Consultants	5,400,000	100%
	(b) Seminars, workshops study tours and fellowships	51,000,000	100% of foreign expenditures and 38% of local expenditures
	(c) Grants to authors and publishers under Part B (2) (b) of the Project	800,000	100% of amounts disbursed
(6)	Goods for Part C of the Project	8,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(7)	Incremental operating costs	6,800,000	100%
(8)	Refunding of Project Preparation Advance	1,000,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
	TOTAL	71,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "incremental operating costs" means expenditures on account of the Project incurred by NTF for:

(i) staff salaries and allowances (provided however, that government officials civil service officials of the Borrower may be considered NTF staff for this purpose only if relieved of their governmental responsibilities and assigned to NTF on a full time basis);

(ii) office rent, NTF's staff salaries and allowances;

(iii) office rent, renovation/maintenance, transport, utilities and telecommunications; and

(iv) office equipment and consumable supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require under such terms and conditions as the Bank shall specify to the Borrower withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures:

(i) for goods and works under contracts costing less than \$100,000 equivalent;

(ii) for individual consultants under contracts costing less than \$50,000 equivalent;

(iii) for individual consulting firms under contracts costing less than \$100,000 equivalent;

(iv) for seminars, workshops, fellowships and study tours costing less than \$1025,000 equivalent; and

(v) for incremental operating costs.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) improve, in selected Higher Education Institutions, the quality of social science education and encourage better governance systems and efficiency in the use of resources; and (b) improve the quality and availability of school textbooks as a major contribution to educational reform.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Higher Education Innovation Fund

The establishment of a higher education innovation fund to provide Sub-Loans and Grants to Higher Education Institutions selected in accordance with the criteria and procedures set forth in the Operational Manual to finance works, technical assistance, training and equipment required for the carrying out of Sub-Projects in the following areas: (i) improvements in the teaching of social sciences; (ii) institutional

development; and (iii) structural reform.

Part B: School Textbook Reform

1. Provision of works, technical assistance, training and goods, to both the MGPE and regional educational administrations to:

(a) establish a valid set of federal education standards; and

(b) evaluate and validate textbooks and other educational materials through structural, managerial and technical reform of the federal expert council of the Borrower.

2. (a) Provision of technical assistance and training to analyze textbooks and educational literature recommended by MGPE for use in schools; and

(b) provide grants to authors and publishers for the purpose of developing new textbooks.

3. Provision of works, technical assistance, training and goods to provide:

(a) a single database of all relevant educational books in print for the Russian school system and the provision of an annually updated catalog of educational materials in traditional and electronic formats; and

(b) the design and installation of a screen based information delivery service, initially for textbooks and educational materials, covering the entire territory of the Borrower at least to the level of each education department of the Borrower's Regions.

4. Provision of training programs for regional and local education administrators in new market-led textbook ordering and information systems.

Part C: Pilot Textbook Procurement Fund

The Establishment and operation of a fund to provide Sub-Loans to selected Regions to obtain textbooks in a manner which would contribute towards: (a) overcoming barriers to entry by assuring payments to publishers and by structuring payments in a manner that addresses working capital requirements; (b) more competitive selection of textbooks and the eventual demonopolization of the textbook publishing industry; (c) speeding up the development and selection of new, more appropriate texts for secondary schools; and (d) the creation of a sustainable system of funding for textbook supply for the secondary education system.

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
On each December 15, 2002 through December 15, 2013	2,960,000
On June 15, 2014	2,920,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto. 2.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and to be procured in accordance with paragraph 1 of this Part B.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods estimated to cost up to an aggregate amount not to exceed \$3.0 million equivalent, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$3.2 million equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International or National Shopping

(a) Goods estimated to cost less than \$250,000 equivalent per contract, up to

an aggregate amount not to exceed \$1.0 million equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

(b) Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment [and textbooks] and that are of a proprietary nature and costing \$6.0 million equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Procurement of Small Works

Works estimated to cost \$100,000 equivalent or less per contract, and not to exceed 2.3 million in the aggregate, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotations for the required work, and who has the experience and resources to successfully complete the contract.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods awarded in accordance with the provisions of Parts B.1, C.1 and C.4 and C.1 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first five contracts for goods awarded in accordance with the provisions of Parts C.2, C.3 (a) and C.3 (b),, C.3 (b) and C.5 and all contracts for Part C.4 of this Schedule, the following procedures shall apply: (A) prior to the selection of any contractor for contracts to be awarded in accordance with the provisions of Part C.5 or any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; (B) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and (C) in addition, the procedures set forth in paragraphs 2 (f) and 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank

Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about May 31, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2000, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

2. The Borrower shall cause NTF to be maintained with staffing, functions and responsibilities satisfactory to the Bank.

3. Without limitation upon any of its obligations under Section 3.01 of this Agreement, the Borrower shall: (i) maintain the Project Account referred to in Section 6.01 (c) of this Agreement, and shall replenish said account promptly before each quarter with sufficient funds to enable the Borrower to meet its obligations under Section 3.01 of this Agreement; (ii) use said account for financing the Borrower's contribution to Project expenditures; and (iii) ensure that sufficient annual allocations will be made with the Borrower's budget for the Borrower's counterpart contribution to the costs of the Project.

4. The Borrower shall make available the proceeds of the Loan amounts allocated from time to time under Categories (1) and (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to the Higher Education Institutions as Grants in accordance with paragraph 5 of this Schedule.

5. With respect to the selection of Sub-Projects and the award of Sub-Loans and Grants to the Higher Education Institutions, the Borrower shall:

(a) follow procedures and criteria agreed with the Bank as set forth in the Operational Manual; and

(b) send to the Bank, for review, a list of all the proposals for Sub-Projects submitted to the Board of Directors of NTF as they become available.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6), (6) and (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3.0 million to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$200,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2.0 million.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Part C of the Project

Part 1: Principal Terms and Conditions of Sub-Loan Agreement

The following principal terms and conditions shall apply for purposes of the Sub-Loan Agreements entered into pursuant to Section 3.01 (d) (i) of the Loan Agreement:

Section A: Terms

1. The principal amount of a Sub-Loan to a Region shall be denominated and be the equivalent in US Dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid on account of goods or services financed out of the proceeds of the Loan.

2. The amount of the Sub-Loan shall not exceed \$2 million representing the cost of the goods to be financed from the proceeds of the Loan.

3. [The Region shall pay interest on the principal amount of the Sub-Loan withdrawn and outstanding from time to time, at a rate equivalent to {terms to be agreed at negotiations}]ten percent (10%). The amount of the Sub-Loan shall be repaid by the Region over a term not to exceed eight (8) months, inclusive of a grace period of not more than four (4) months.

Section B: Obligation to Carry Out Part C of Project Activities

1. The Region shall declare its commitment to the objectives of Part C of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out, with the Borrower's assistance, the activities related to the Region as described in Part C of Schedule 2 to this Agreement with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services or other resources required for its part of the Project.

2. The Region shall carry out its respective part of the Project in accordance with the Project Implementation Schedule set forth in this Agreement.

3. The Beneficiary shall duly perform all its obligations under the Sub-Loan Agreement. Except as the Bank shall otherwise agree, the Region shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving this Agreement or any provision thereof.

4. (a) The Region shall, at the request of the Bank, through the NTF, exchange views with the Bank with regard to the progress of its respective part of Part C of the Project, the performance of its obligations under this Agreement, and other matters relating to the purposes of this Sub-Loan.

(b) The Region shall promptly inform the Borrower and the Bank through the NTF of any condition which interferes or threatens to interfere with the progress of its respective part of the Project, the accomplishment of the purposes of the Loan, or the performance by the Region of its obligations under the Sub-Loan Agreement.

Section C: Financial Covenants

1. (a) The Region shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices and operations, resources and expenditures in respect of its respective part of the Projectthe Sub-Loan.

(b) The Region shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank, through the NTF, as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank, through the NTF, such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

Section D: Implementation Conditions

The Region shall:

(a) shall establish and maintain a liaison person or persons with full authority of the Region to officially act on its behalf in carrying out all of its obligations under this Agreement; and e Sub-Loan Agreement.

(b) advance to the NTF for the purposes of depositing into the Project Account opened by the NTF in a commercial bank, an initial amount equal to [US\$_____] in local currency to be used to cover the agreed local cost sharing and for funds for anticipated custom duties and taxes for its respective part of the Project. The Project Account shall be replenished by the Beneficiary through the NTF, based on a schedule to be agreed annually with the NTF and the Bank in advance of anticipated disbursement.

Part II: Principal Terms and Conditions of Sub-Loan

1. No expenditures for goods or services under the Sub-Loan shall be eligible for financing out of the proceeds of the Loan unless the Sub-Loan shall have been approved by the NTF and the Bank.

2. The selection of the Region of the Sub-Loan shall be in accordance with the agreed selection procedures as outlined in the Operation Manual of the NTF and presented to the Bank for its prior review.

3. The NTF shall have the right to:

(a) inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods and services, including works qualifying under the local cost sharing arrangements and included in itthe Region's respective part of Part C of the Project, the operation thereof, and any relevant records and documents;

(b) obtain all such information as the Bank shall reasonably request relating to the foregoing, and to the administration, operation and financial condition of the Region and to the benefits to be derived from its respective part of Part C of the Project; and

(c) suspend or terminate the right of the Region to the use of the proceeds of the Sub-Loan upon failure by such Region to perform its obligations under this Sub-Loan.

